

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

MULTI-LAKE WATER
AND SEWER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

MULTI-LAKE WATER AND SEWER AUTHORITY

WATER & SEWER AUTHORITY BOARD

Chris Jones - Trustee
Michael Gross - Trustee
Deb Alvarez - Trustee
Dick McCloskey - Trustee
Maryann Noah - Chairperson
Steven Piatt - Secretary
David Steinbach - Vice-Chairperson
Jack West - Treasurer

WATER AND SEWER AUTHORITY ATTORNEY

Keusch & Flintoft

WATER AND SEWER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITORS' REPORT	
MANAGEMENT DISCUSSION AND ANALYSIS	6
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Revenues and Expenses	12
Statement of Operating Expenses	13
Statement of Cash Flows	14
NOTES TO FINANCIAL STATEMENTS	16

July 18, 2005

Multi-Lake Water and Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying financial statements of the Multi-Lake Water and Sewer Authority as of and for the year ended March 31, 2005. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the authority, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Multi-Lakes Water and Sewer Authority, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12, the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments*, as of March 31, 2005.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Multi-Lakes Water and Sewer Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states in all material respects in relation to the basic financial statements as a whole.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION AND
ANALYSIS

Management Discussion and Analysis
March 31, 2005

Within this section of the Multi-Lake Water and Sewer Authority's financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2005. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water and sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$19,189,119. This is a \$45,025 decrease from last year's net assets of \$19,234,144.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>03/31/2005</u>	<u>03/31/2004</u>
Current and other assets	\$ 1,673,162	\$ 1,550,753
Capital assets, net	<u>17,562,911</u>	<u>17,735,203</u>
Total assets	<u>19,236,073</u>	<u>19,285,956</u>
Accounts payable	37,381	39,130
Deposits	<u>9,573</u>	<u>12,682</u>
Total liabilities	<u>46,954</u>	<u>51,812</u>
Net assets:		
Invested in capital assets, net of related debt	17,562,911	17,735,203
Unrestricted	<u>1,626,208</u>	<u>1,498,941</u>
Total net assets	<u>\$ 19,189,119</u>	<u>\$ 19,234,144</u>

The increased capacity generated from the Phase II expansion has brought nearly 700 new users into the system in the past 2 years. Further operating expenses increased only 3% over the prior year.

As a result, the loss from operations was reduced significantly, from an operating loss of \$186,656 for the year ended March 31, 2004 to an operating loss of \$67,772 for the year ended March 31, 2005. Additionally, during the current year, the Authority increased its cash balance 7%, from \$1,294,341 on March 31, 2004 to \$1,389,837 on March 31, 2005.

Summary of Changes in Net Assets

	<u>03/31/2005</u>	<u>03/31/2004</u>
Operating revenues	<u>\$ 993,538</u>	<u>\$ 850,195</u>
Operating expenses		
General	147,783	149,894
Sewer	913,527	886,957
Total operating expenses	<u>1,061,310</u>	<u>1,036,851</u>
Operating(loss)	(67,772)	(186,656)
Non-operating revenues, net	<u>22,747</u>	<u>980,323</u>
Net (loss) income	(45,025)	793,667
Beginning net assets	<u>19,234,144</u>	<u>18,440,477</u>
Ending net assets	<u><u>\$ 19,189,119</u></u>	<u><u>\$ 19,234,144</u></u>

Capital and Debt Administration

As of March 31, 2005, the authority does not have any outstanding long-term debt in the form of bonds or loans payable.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to remain constant to slowly rising, with several new users expected to be added during the fiscal year. The Authority has a strong cash position and is unencumbered by debt.

It is expected that the increase in revenue experienced in the fiscal year March 31, 2005 will continue in future years. An additional system expansion is underway that will bring additional users into the system.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the authority and its customers. During this fiscal year, the Authority's electrical and heating costs increased by nearly 20% from the prior year. If such trends continue, these costs may be passed on to customers, who are also enduring higher energy costs.

Future Vision

A wastewater treatment plant upgrade is planned for 2006. Multi-Lakes' current wastewater treatment is processed by two Sequencing Batch Reactors to ground water discharge. The engineers for Multi-Lakes are currently designing oxidation ditches for the wastewater treatment plant upgrade. The current SBR tanks will be converted to an equalization basin with aeration and two digesters/sludge storage tanks. Multi-Lakes is looking to the future, and being able to adequately serve the demands of their four constituent municipalities. The new plant capacity design is sensitive to the Master Land Use Plans of these rural communities who created Multi-Lakes for environmental protection of the numerous lakes, streams and wetlands that characterize the area.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 12088 North Territorial Road, Dexter, Michigan 48130.

BASIC
FINANCIAL
STATEMENTS

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2005

ASSETS

CURRENT ASSETS

Cash - operations	\$ 255,698
Accounts receivable - sewer	239,402
Accounts receivable - other	10,820
Prepaid expenses	25,258
Inventory	<u>7,845</u>

Total current assets \$ 539,023

RESTRICTED ASSETS

Cash - construction	524,450
Cash - capital replacement	600,116
Cash - agency	<u>9,573</u>

Total restricted assets 1,134,139

PROPERTY, PLANT AND EQUIPMENT

Land	123,000
Leasehold improvement	11,869
Sewer system	19,414,737
Equipment	<u>103,590</u>
	19,653,196
Less accumulated depreciation	<u>2,090,285</u>

Net property, plant and equipment 17,562,911

Total assets \$ 19,236,073

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 11,341
Due to member townships	26,040
Due to others - escrow	<u>9,573</u>

Total current liabilities \$ 46,954

NET ASSETS

Investment in capital assets, net of related debt	17,562,911
Unreserved - sewer	<u>1,626,208</u>

Total net assets \$ 19,189,119

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2005

OPERATING REVENUES

Billings	\$ 716,794
Inspection and taps	172,000
Grinder pump sales	<u>104,744</u>

Total operating revenues \$ 993,538

OPERATING EXPENSES

913,527

ADMINISTRATIVE EXPENSES

Bank charges	6,371
Insurance - general	35,989
Depreciation	1,345
Office expenses	1,345
Miscellaneous	1,533
Printing and postage	1,266
Authority per-diem fees	6,975
Payroll services fees	1,838
Accounting and audit fees	8,000
Legal fees	492
Miss-Dig and inspection fees	11,126
Salaries and wages	51,640
Retirement	4,725
Health insurance	4,222
Payroll taxes	<u>10,916</u>

Total administrative expenses 147,783

Total expenses 1,061,310

Operating (loss) (67,772)

NON-OPERATING REVENUES (EXPENSES)

Interest income	21,965
Member debt transfers	(103,068)
County construction payments and reimbursements	72,088
Miscellaneous income	22,162
Rental income	<u>9,600</u>

Total non-operating revenues 22,747

Net (loss) \$ (45,025)

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 2005

OPERATING EXPENSES

Contracted services	\$ 44,694
Operator salary and wages	109,393
Retirement	813
Insurance - health	8,504
Supplies	49,812
Repairs and maintenance - grounds and building	26,985
Utilities	68,358
Grinder pumps	99,370
Alarm services	408
Depreciation	397,862
Engineering fees	2,142
Telephone	9,024
Billing charges	1,790
Mileage and reimbursements	772
Tap-in fees	<u>93,600</u>
Total operating expenses	<u>\$ 913,527</u>

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2005

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 975,110
Payments to vendors	<u>(675,446)</u>

Net cash from operating activities \$ 299,664

CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Transfer to member townships	(103,068)
Acquisition and construction of capital assets	<u>(226,915)</u>

Net cash (used in) capital and related
financing activities (329,983)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	21,965
Rental income	9,600
County construction payments and reimbursements	72,088
Other income	<u>22,162</u>

Net cash from investing activities 125,815

Net increase in cash and cash equivalents 95,496

CASH AND CASH EQUIVALENTS AT APRIL 1, 2004 1,294,341

CASH AND CASH EQUIVALENTS AT MARCH 31, 2005 \$ 1,389,837

RECONCILIATION OF OPERATING (LOSS)

TO NET CASH PROVIDED (USED IN) OPERATING ACTIVITIES

Operating (loss)	(67,772)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation expense	399,207
Changes in assets and liabilities	
Receivables, net	(18,428)
Prepaid expenses	(8,485)
Accounts and other payables	<u>(4,858)</u>

Net cash provided by operating activities \$ 299,664

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Multi-Lake Water and Sewer Authority was incorporated on October 4, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. The two incorporating municipal entities are Dexter and Lyndon Townships.

The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The Authority Board is composed of four voting representatives from Dexter Township, two voting representatives from Lyndon Township, one voting member from Unadilla Township, and one voting member from Putnam Township. Each representative serves a term of four years. The two Townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective Township.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Authority is considered an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- C. MANAGEMENT'S ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan

The investment policy adopted by the Authority is in accordance with Act 196 PA 1997. The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 280,568	\$ 269,670
Uninsured and uncollateralized	<u>1,109,269</u>	<u>1,282,106</u>
Total deposits	<u>\$ 1,389,837</u>	<u>\$ 1,551,776</u>

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets and depreciation is as follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Balance 3/31/05</u>
Sewer system	\$ 19,187,822	\$ 226,915	\$ 19,414,737
Equipment	103,590		103,590
Land	123,000		123,000
Land improvements	<u>11,869</u>		<u>11,869</u>
Total cost	19,426,281	226,915	19,653,196
Less accumulated depreciation	<u>1,691,078</u>	<u>399,207</u>	<u>2,090,285</u>
Net fixed assets	<u>\$ 17,735,203</u>	<u>\$ (172,292)</u>	<u>\$ 17,562,911</u>

Depreciation for the sewer system, equipment, improvements and software paid by operating income is charged as an expense against their operations.

Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Sewer System	50 years
Equipment, Furniture and Software	5 - 10 years

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance <u>April 1, 2004</u>	Ending Balance <u>March 31, 2005</u>
Current Assets		
Cash and cash equivalents	\$ 235,118	\$ 255,698
Restricted Assets		
Cash and cash equivalents	<u>1,059,223</u>	<u>1,134,139</u>
	<u>\$ 1,294,341</u>	<u>\$ 1,389,837</u>

NOTE 6 - LEASE AGREEMENTS

The authority has two lease agreements with each of the following entities, Chelsea Fire Department and Dexter Fire Department. The lease agreements call for monthly rents of \$400 for Chelsea and Dexter Fire Departments each and their pro-rata share of all heat, water, gas, oil and other utilities. The lease agreements for the Chelsea Fire Department and Dexter Fire Department are for a period of two years.

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 7 - SEWER BILLINGS

The system currently has 1,363 users. Sewer users, with the exception of those in Gregory, are billed \$129.33 per quarter for service.

The quarterly charges are composed of the following:

Operation and maintenance	\$ 81.33
Reserve for debt service	21.00
Reserve for equipment replacement	<u>27.00</u>
Total	<u>\$ 129.33</u>

Users in Gregory are billed quarterly as follows:

Operation and maintenance	\$ 81.33
Reserve for equipment replacement	<u>8.64</u>
	<u>\$ 89.97</u>

NOTE 8 - SYSTEM EXPANSION - PROJECT UNCERTAINTIES

The County entered into a lease agreement dated October 1, 1994, with the Townships of Dexter and Lyndon, located in Washtenaw County (the "Townships"). The lease agreement totaled \$8,900,000, which represented the amount of bonds sold by the County to finance the Multi-Lake Sanitary Sewer System Project (the "System"). The Townships pay semi-annually to the County amounts sufficient to cover the debt service requirements, including agent fees and other related costs.

The Multi-Lake Water and Sewer Authority (the "Authority"), through a sublease with the Townships (who lease the project for the county), is required to operate, maintain, repair, insure and manage the system. Ownership of the system will be transferred to the Authority at no cost after the bonds have been paid in full.

The original lease agreement entered into between the County, the Authority and the Townships for the construction of the system and financing thereof indicated that Dexter Township would levy special assessments totaling approximately \$7.6 million. However, upon preparations and confirmation of its special assessments roll, Dexter Township actually levied approximately \$5.3 million. While a variety of factors appear to have contributed to this difference, there is concern by all parties to the contract as to Dexter Township's ability to satisfy its future lease payment obligations.

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 8 - SYSTEM EXPANSION - PROJECT UNCERTAINTIES - continued

Presently, management of the Washtenaw County Department of Public Works believes that remedies that are available to the County in the event Dexter Township is unable to satisfy its lease obligations are sufficient to provide the necessary funding to meet the County's debt service requirements for the bonds issued to finance this project. Accordingly, no fund liability has been recorded by the County for any contingencies relative to this matter.

The Authority and County currently have contracted with new customers outside the sewer service area to provide service.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - ACCOUNTS RECEIVABLE

The Authority's billing periods are as follows:

April	through	June
July	through	September
October	through	December
January	through	March

Thus, accounts receivable includes both billed receivables through December 2004 and an estimate of the January through March 2004 billings. The following is a schedule of the Authority's accounts receivable:

<u>Estimated Unbilled</u>	<u>Current</u>	<u>Over 30 Days</u>	<u>Over 90 Days</u>	<u>Total</u>
<u>\$ 175,530</u>	<u>\$ 0</u>	<u>\$ 63,872</u>	<u>\$ 0</u>	<u>\$ 239,402</u>

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 11 - INVENTORIES

Inventories of the water and sewer fund are valued at the lower cost or market. Cost is determined on the first in, first out basis. A physical inventory was taken at March 31, 2005. The authority's only inventory at March 31, 2005 was 3 grinder pumps.

NOTE 12 - IMPLEMENTATION OF GASB STATEMENT NO. 34

The Authority has implemented the standards required by GASB Statement No. 34, for the year ended March 31, 2005. All required statements and disclosures have been included in the financial statements.

MULTI - LAKES WATER & SEWER AUTHORITY

COMMUNICATION OF REPORTABLE
CONDITIONS TO MANAGEMENT
-IDENTIFICATION OF MATERIAL WEAKNESS

FOR THE YEAR ENDED MARCH 31, 2005



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
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July 18, 2005

Multi-Lakes Water & Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

In planning and performing our audit of the financial statements of Multi-Lakes Water & Sewer Authority for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Multi-Lakes Water & Sewer Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the following reportable conditions that we believe to be material weaknesses are:

- Lack of segregation of duties.

This report is intended solely for the information and use of the Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants